

FOLLOW-UP REPORT  
ON THE  
OFFICE OF EDUCATION OPTIONS

DEPARTMENT OF EDUCATION

October 2004



“...The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.”

– Article IV, Section 53 of the Michigan Constitution

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AUDITOR GENERAL

October 28, 2004

Mr. Thomas D. Watkins Jr., Chairperson  
State Board of Education  
Hannah Building  
Lansing, Michigan

Dear Mr. Watkins:

This is our report on our follow-up of the 9 material findings (Findings 1 through 7 and 11 and 12) and 15 related recommendations reported in the performance audit of the Office of Education Options, Department of Education. That audit report was issued and distributed in June 2002; however, additional copies are available on request or at <http://www.audgen.michigan.gov>.

Our follow-up disclosed that the Department of Education had complied with 2 recommendations, had partially complied with 3 recommendations, and had not complied with but has initiated corrective action for 10 recommendations.

If you have any questions, please call me or Scott M. Strong, C.P.A., C.I.A., Deputy Auditor General.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish".

Thomas H. McTavish, C.P.A.  
Auditor General



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# **OFFICE OF EDUCATION OPTIONS DEPARTMENT OF EDUCATION FOLLOW-UP REPORT**

## **INTRODUCTION**

This report contains the results of our follow-up of the material findings and related recommendations reported in our performance audit of the Office of Education Options, Department of Education (#3113501), which was issued and distributed in June 2002. That audit report included 9 material findings (Findings 1 through 7 and 11 and 12) and 10 other reportable conditions.

## **PURPOSE OF FOLLOW-UP**

The purpose of this follow-up was to determine whether the Department had taken appropriate corrective measures in response to the 9 material findings and 15 related recommendations.

## **BACKGROUND**

The Office of School Improvement, formerly the Office of Education Options, Department of Education, is responsible for the oversight of public school academies (PSAs). The Office of School Improvement is responsible for administering charter school legislation and associated regulations and coordinating the activities of the Department relating to charter schools. The Department may suspend the power of an authorizing body (authorizer) to issue new contracts to organize and operate PSAs if it finds that an authorizer is not engaging in appropriate continuing oversight of one or more of its PSAs.

Some of the issues that have impacted the Department's efforts in addressing the prior audit findings include the loss of key personnel, unsuccessful attempts to change legislation, and the development of a new oversight system and authorizer standards.



Prior to its reorganization, the Department had allocated 2.6 full-time equated employees to oversee PSAs. In July 2002, two of those employees, the PSA program liaison and the PSA program director, retired. The Department filled the director's position with an interim director, who subsequently transferred to another position within the Department. The Department appointed a new PSA program director again in December 2003.

The Department submitted recommended language to be included in Senate Bill 393 of 2003 two and three months after the Senate and House of Representatives, respectively, had passed the substitute bills. This language would have addressed some of the recommendations from our prior audit report. When Senate Bill 393 of 2003 was enacted into law, the recommended language by the Department was not adopted.

After obtaining input from PSA authorizers, the Department contracted with an independent consultant in January 2004 and began designing a system for oversight of PSA authorizers. The system is intended to be an important tool in increasing the Department's oversight efforts by allowing the Department to receive assurances from the authorizers relating to PSAs' compliance with statutes, rules, contract terms, and policies. The Department plans to conduct "spot checks" of authorizers and PSAs to verify that the data is accurate. The Department also plans to analyze and present the data as part of the Annual Comprehensive PSA Report. The Department should be able to make an assessment of the authorizers' performance as it relates to the monitoring of PSAs based on the information collected and the spot checks.

In conjunction with the oversight system, the Department has drafted authorizer accountability standards. These standards are intended to help provide guidance to and establish benchmarks for authorizers. These standards will also assist the Department in making an assessment of the authorizers' monitoring performance as it relates to the authorizers' PSA oversight responsibility. The Department's goal is to have the system operational and the standards implemented by late fall 2004. Because the Department had not implemented the new standards during our fieldwork, we could not determine what effect the new standards may have on the issues identified in our performance audit of the Office of Education Options, Department of Education (#3113501). Also, we were informed by six authorizers that they had made changes in their guidance and monitoring procedures based on the recommendations noted in the prior audit report. Overall, a majority of the authorizers informed us that they have



improved their guidance and monitoring procedures and have implemented new policies.

As part of their improved guidance and monitoring, some authorizers informed us that training is provided to PSA board members on PSA operations, board policies and procedures, student records, and insurance coverage. Furthermore, a majority of the authorizers informed us that they continue to conduct site visits of PSAs and have enhanced their monitoring of the facilities to ensure compliance with statutes.

Some authorizers informed us that PSA board members are now required to complete a conflict of interest questionnaire, attend orientation, and/or complete a conflict of interest disclosure annually. A majority of the authorizers also informed us that they require or recommend criminal background checks on administrators, teachers, nonteachers, and board members and have improved their monitoring of such items. Additionally, a majority of the authorizers informed us that they have implemented policies requiring PSA board secretaries to sign the board minutes, PSA board members to be residents of the State, and PSAs to display a United States flag and have restricted authorizing contracts in excess of five years.

## **SCOPE**

Our fieldwork was conducted from January through May 2004. We interviewed Department personnel to determine the status of compliance with our recommendations for Findings 1 through 7 and 11 and 12 from our performance audit of the Office of Education Options, Department of Education, issued in June 2002. We reviewed proposed and new legislation, policy and procedure changes, draft guidance for authorizers, and design plans for an oversight system. We made inquiries of seven authorizers related to guidance and monitoring improvements and policy or procedural changes implemented since the issuance of our audit report.



# **FOLLOW-UP RESULTS**

## **OFFICE OF EDUCATION OPTIONS' AND DEPARTMENT OF EDUCATION'S OVERSIGHT OF PUBLIC SCHOOL ACADEMY (PSA) AUTHORIZERS**

### **RECOMMENDATION AND RESPONSE AS REPORTED IN JUNE 2002:**

#### **1. Oversight of Authorizers**

#### **RECOMMENDATION**

We recommend that the Department establish and implement necessary rules, policies, and procedures to monitor the operations of PSA authorizers.

#### **AGENCY PRELIMINARY RESPONSE**

The Department agrees with the recommendation. Guidelines and model procedures were not developed for use with PSA authorizers. However, since March, steps have been taken to work with the authorizers to address this issue. Three working groups have been established to work on (1) policies and procedures, (2) teacher certification issues, and (3) data collection. Steps have also been taken to develop authorizer guidelines for revocation and dissolution of a PSA. In addition, relationships have been formed with other areas within the Department to use existing resources to monitor PSAs and to inform the authorizer when problems are discovered.

#### **FOLLOW-UP CONCLUSION**

This recommendation is related to the Department's oversight of authorizers and the PSA program. Finding 1 contained 14 items (1.a. through 1.n.) that incorporated other material and reportable conditions within the report to demonstrate the need for additional monitoring by the Department. Six items were material conditions (1.a. through 1.d. and 1.h. through 1.i.) and 8 items were reportable conditions (1.e. through 1.g. and 1.j through 1.n.). Our conclusions related to the following 6 material items/findings can be found in the "Follow-Up Conclusion" for each finding within this report:

- Allocation and Requesting of Resources (item 1.a./Finding 2)
- Conflicts of Interest (item 1.b./Finding 5)
- Management Companies (item 1.c./Finding 6)



- PSA Facility Occupancy Approval (item 1.d./Finding 7)
- Religious Symbols or Messages (item 1.h./Finding 11)
- Legislation or Administrative Rules and Related Policies and Procedures (item 1.i./Finding 12)

For the remaining 8 items (reportable conditions), we concluded that the Department had not complied with the recommendation but has initiated corrective action. These items included the following:

- Safe Facilities (item 1.e./Finding 8)
- Teacher Certification, Employee Background, and Unprofessional Conduct Checks (item 1.f./Finding 9)
- Emergency Permit Applications (item 1.g./Finding 10)
- PSA Board Operations (item 1.j./Finding 13)
- PSA Board Policies and Procedures (item 1.k./Finding 14)
- Financial Related Internal Controls (item 1.l./Finding 15)
- Student Records (item 1.m./Finding 16)
- PSA Insurance Requirements (item 1.n./Finding 17)

In response to many items in the finding, the Department has initiated corrective action to address this recommendation by drafting a model system for oversight of PSA authorizers, drafting authorizer accountability standards, recommending language for a bill, and establishing goals to reduce the number of emergency teaching permits.

## **RECOMMENDATION AND RESPONSE AS REPORTED IN JUNE 2002:**

### **2. Allocation and Requesting of Resources**

#### **RECOMMENDATION**

We recommend that the Department allocate all available resources to administer the State's PSA program and request from the Legislature the additional resources needed to effectively oversee the program and provide assistance to the PSA authorizers.



## **AGENCY PRELIMINARY RESPONSE**

The Department agrees with the recommendation. During the period of the audit, resources were not fully utilized. Under the current administration, steps have been taken to fully utilize the available resources to administer the PSA program. In addition, a request was submitted to the Governor and the Legislature for additional resources on April 29, 2002 and again on May 23, 2002.

## **FOLLOW-UP CONCLUSION**

We concluded that the Department had partially complied with this recommendation.

In fiscal years 2001-02 through 2003-04, the Legislature annually appropriated \$350,000 and 3.5 full-time equated (FTE) positions for the Department to administer the PSA program. The Department expended \$344,191 and \$324,949 and allocated 2.9 and 2.28 FTEs and 1.0 contractual employee for fiscal years 2001-02 and 2002-03, respectively. Additionally, the Department continued to allocate less than 3.5 FTEs during fiscal year 2003-04.

Our follow-up disclosed that the Department made requests in April 2002 and September 2003 for supplemental appropriations to effectively oversee the program and provide assistance to the PSA authorizers. However, the Legislature did not pass the supplemental appropriations.

The Department is currently reorganizing the division responsible for the PSA program and stated that when the reorganization of the division is complete, the Department will utilize the 3.5 associated FTE positions. Additionally, the Department indicated that it continues to seek alternative resources to help administer the State's PSA program.

## **RECOMMENDATION AND RESPONSE AS REPORTED IN JUNE 2002:**

### **3. Annual Comprehensive PSA Report**

## **RECOMMENDATION**

We recommend that the Department prepare and submit annual comprehensive PSA reports to the Legislature as required by statute.



## **AGENCY PRELIMINARY RESPONSE**

The Department agrees with the recommendation and will comply with the statute as resources permit and data becomes available. The State's Center for Educational Performance and Information has responsibility for much of the data required. Every effort will be made to obtain the required data, if available, and report the information as required.

## **FOLLOW-UP CONCLUSION**

We concluded that the Department had not complied with this recommendation but has initiated corrective action. As stated in the background section, the Department has initiated action to address this recommendation by drafting a model system for oversight of PSA authorizers and by drafting authorizer accountability standards. The intent of the system and the standards is to enable the Department to collect the necessary data for the Annual Comprehensive PSA Report. The Department plans to comply by late fall 2004.

## **RECOMMENDATION AND RESPONSE AS REPORTED IN JUNE 2002:**

### **4. Evaluation of PSA Program Operations**

## **RECOMMENDATION**

We recommend that the Department establish a comprehensive process to evaluate and improve the effectiveness of its PSA program operations.

## **AGENCY PRELIMINARY RESPONSE**

The Department agrees with the recommendation. However, efforts to develop and implement a comprehensive process to evaluate and improve the PSA program will be limited unless resources are added to the program. The PSA program has struggled to keep up with the basic responsibilities identified in statute and has not had an opportunity to engage in a process to evaluate and improve PSA program operations.

In 2001, the Legislature established a special commission "to conduct a complete and objective review of all aspects of public school academies in Michigan." The Commission on Charter Schools, chaired by the President of Michigan State University, was composed of eight members, including the Superintendent of



Public Instruction. The membership was structured to be bipartisan and to represent the primary stakeholders.

The Commission was asked to provide an objective examination of pertinent research and to look at current laws governing charter schools in the State. The Commission's report was published in April 2002 and identified several key issues or concerns, made recommendations to address the issues and concerns, and offered suggestions for legislation, where appropriate, to strengthen the charter school initiative in Michigan. The Commission's report may be obtained at <http://www.charterschools.msu.edu/>.

The Office of Education Options believes that the Commission's report serves as an evaluation of the charter school initiative in Michigan and, if implemented, will improve the effectiveness of PSA operations in the State. However, there is still a need to undertake a study to determine the impact of the charter school initiative in Michigan. Funding to undertake this study was part of the Department's request for additional resources submitted April 29, 2002.

### **FOLLOW-UP CONCLUSION**

We concluded that the Department had not complied with this recommendation but has initiated corrective action.

The Department provided us with a revised draft of its mission, goals, and performance standards for the PSA program. The Department responded that, in order to implement an evaluation process, it needed additional resources to undertake the collection and analysis of data needed for the evaluation. The Department made requests for supplemental appropriations for additional resources in April 2002 and September 2003; however, the Legislature did not pass the supplemental appropriations.

Meanwhile, the Department has initiated action to address this recommendation by drafting a model system for oversight of PSA authorizers and by drafting authorizer accountability standards. The system and standards may help the Department to collect and analyze the necessary data to establish a comprehensive process to evaluate and improve the effectiveness of its PSA program operations. The Department's goal is to have the system operational and the standards implemented by late fall 2004.



## **RECOMMENDATIONS AND RESPONSE AS REPORTED IN JUNE 2002:**

### **5. Conflicts of Interest**

#### **RECOMMENDATIONS**

We recommend that the Department provide guidance to PSA authorizers to assist them in identifying and eliminating conflicts of interest regarding PSA operations and oversight.

We also recommend that the Department seek legislative changes to properly address potential conflicts of interest that have arisen with the advent of PSAs.

#### **AGENCY PRELIMINARY RESPONSE**

The Department agrees with the recommendations and will work with the authorizers and the National Charter Schools Institute to provide written guidance and training on conflict of interest as it applies to board members, officers, and employees of PSAs.

The Commission on Charter Schools' report and the draft legislation (House Bill 4800 of 2001) supporting the Commission's report address this issue at length. Section 380.503(3)(k) of House Bill 4800 requires the contract between the authorizer and the PSA to include a requirement that the board of directors (of the PSA) prohibit specifically identified family relationships between members of the board of directors, persons who have an ownership interest in or are officers or employees of an educational management company involved in the operation of the PSA and employees of the PSA. The contract shall identify the specific prohibited relationships.

As a matter of public record, it is important for the auditors to acknowledge that the Department does not ignore situations where a conflict of interest could have resulted in an inappropriate use of public funds. Independent auditors are required to look for and disclose related party transactions in their annual audit reports. When audit reports reveal a conflict of interest, the Department's Office of Audits works with the authorizers to determine that the transactions were for the fair market value of the goods or services, that the required disclosures were made to the PSA board, and that the related party abstained from voting on the transactions.



Also, in an effort to improve audit reporting, the Office of Audits performs quality control reviews of public accounting firms and, as part of the review, determines whether the auditors properly tested for related party transactions. In addition, the Office of Audits will provide training on identifying and disclosing related party transactions at the Michigan Association of Certified Public Accountants Spring Governmental Accounting and Auditing Conference and has addressed related party transactions in an Accounting and Auditing Alert issued by the Department.

### **FOLLOW-UP CONCLUSION**

We concluded that the Department had not complied with the first recommendation but has initiated corrective action and had complied with the second recommendation.

The Department stated that it has supported training provided by the National Charter Schools Institute that was offered to PSA board members, and the Department provided training on related party transactions primarily to independent auditors who may perform financial audits at PSAs.

Also, as noted in the background section, the Department has drafted authorizer accountability standards to provide guidance to PSA authorizers on items such as conflict of interest. However, the Department had not implemented these standards at the time of our fieldwork completion.

### **RECOMMENDATION AND RESPONSE AS REPORTED IN JUNE 2002:**

#### **6. Management Companies**

### **RECOMMENDATION**

We recommend that the Department provide guidance to PSA authorizers to help ensure that management company contracts with PSAs preserve the PSA boards' independence, that management companies provide effective services at a reasonable cost, and that management companies provide services in a manner open to public scrutiny.

### **AGENCY PRELIMINARY RESPONSE**

The Office of Education Options agrees with the recommendation. However, it is important to note that the Department does take steps to examine whether



management companies provided effective services at a reasonable cost through the annual audit process. Independent auditors are required to look for and disclose related party transactions in their audit reports. When this happens, the Department's Office of Audits works with the authorizers to determine that the transactions were for the fair market value of the goods or services, that the required disclosures were made to the PSA board, and that the related party abstained from voting on the transactions.

Also, in an effort to improve audit reporting, the Office of Audits performs quality control reviews of public accounting firms and, as part of the review, determines whether the auditors properly tested for related party transactions. In addition, the Office of Audits will provide training on identifying and disclosing related party transactions at the Michigan Association of Certified Public Accountants Spring Governmental Accounting and Auditing Conference and has addressed related party transactions in an Accounting and Auditing Alert issued by the Department.

The Commission on Charter Schools' report recommendations and the draft legislation (House Bill 4800 of 2001) supporting the Commission's report give statutory authority to the authorizers to address this issue by strengthening the contract between the authorizer and the PSA. Specifically, the authorizer must require, through the contract with the PSA, that the PSA board make information concerning its operation and management available to the public even if the board enters into an agreement with a management company to operate the PSA. Disclosure includes, but is not limited to, the board-approved budget, amendments to the budget, and bills paid as submitted to the board. In addition, quarterly financial reports will be submitted to the authorizer (Section 380.503(3)(k-m) of House Bill 4800). Also, Section 380.1320 of House Bill 4800 asserts and strengthens the role of the PSA governing board in management company relationships.

### **FOLLOW-UP CONCLUSION**

We concluded that the Department had not complied with the recommendation but has initiated corrective action.

The Department stated that it has supported training provided by the National Charter Schools Institute that was offered to PSA board members, which included the topic of board independence. The Department has reviewed costs to



determine the average fee for overall business and administrative services and has provided the cost analysis to PSA authorizers upon request. The Department now uses an Ingham County Circuit Court and a State of Michigan Court of Appeals ruling as the official guidance that management companies' services provided to PSAs are open to public scrutiny.

As described in the background section, the Department has initiated action to further address this recommendation by drafting authorizer accountability standards. The standards are intended to provide guidance to PSA authorizers to help ensure that PSA boards remain independent from their management company, receive management services at a reasonable cost, and require management companies to provide services that are open to public scrutiny.

## **RECOMMENDATIONS AND RESPONSE AS REPORTED IN JUNE 2002:**

### **7. PSA Facility Occupancy Approval**

#### **RECOMMENDATIONS**

To improve its process for approving PSA buildings for occupancy, we recommend that the Department:

- (a) Obtain an Office of Fire Safety (OFS), Department of Consumer and Industry Services, inspection for all facilities, including facilities previously approved under its continuous use policy.
- (b) Ensure that sanitation inspections for school facilities are performed.
- (c) Ensure that the State's sanitation rules for schools are enforced.
- (d) Establish and maintain agreements with assisting agencies for the review and approval of school construction projects and request legislation, if necessary, to ensure that appropriate facility inspections are obtained.
- (e) Establish policies and procedures requiring authorizers to notify the Department of all changes in PSA occupancy or location.



## **AGENCY PRELIMINARY RESPONSE**

The Department agrees with the recommendations and the audit finding that is critical of the continuous use policy supported by the prior administration. The current administration eliminated the continuous use practice in May 2001. Since then, all charter schools involved in a change of ownership and/or lease have been required to meet current code requirements before occupying a facility.

On October 11, 2001, the Superintendent of Public Instruction informed the director of the Department of Consumer and Industry Services, in writing, of a policy change involving the plan review, inspection, and occupancy of Michigan's school buildings. Prior to October 11, 2001, the Department of Education, the Department of Consumer and Industry Services, and OFS had an informal agreement for defining and dealing with buildings to be considered for designation as "prior/continuous use" school buildings. Buildings designated as prior or continuous use school buildings were exempt from plan review and inspection by OFS. Buildings that were unoccupied for more than one year, that had a change in use, or that had major renovations without the approval of OFS would be considered new and occupancy would require an inspection.

The Department does not have the resources to coordinate local public health agency reviews of construction plans or inspections involving PSAs on issues related to water supply, sanitation, and food handling. The Department has taken steps to explore interagency agreements to coordinate these functions with the responsible agencies; however, the agencies cited in the audit do not have the resources required to carry out this responsibility.

Resolution of this issue may require legislative action to establish a fee structure in order to provide the resources necessary for the required inspections.

## **FOLLOW-UP CONCLUSION**

The Department had complied with recommendation (e), had partially complied with recommendations (a) and (d), and had not complied with recommendations (b) and (c) but has initiated corrective action:

- a. We concluded that the Department had partially complied with this recommendation by requiring OFS inspections for new or added facilities of PSAs. However, the Department had not fully complied with the



recommendation to obtain OFS inspections on PSAs operating under the continuous use policy. In late March 2004, the Department had initiated corrective action for PSAs operating under the continuous use policy by sending letters to authorizers requiring PSAs to obtain an OFS inspection. At the time of our fieldwork completion, the Department had not received any OFS inspections.

- b. We concluded that the Department had not complied with this recommendation but has initiated corrective action. The Department has initiated contact with other State agencies, such as the Department of Community Health, the Department of Environmental Quality, the Department of Labor and Economic Growth (DLEG), and the Family Independence Agency, to discuss the need to enforce sanitation standards or rescind sanitation standards if they no longer apply.
- c. We concluded that the Department had not complied with this recommendation but has initiated corrective action. The Department informed us that, in April 2004, it and other State agencies (see item b.) with inspection and oversight authority and responsibility discussed enforcement options and attempted to identify sanitation rules that are still applicable. However, at the time of our fieldwork, no resolution had been made as to how these rules would be enforced.
- d. We concluded that the Department had partially complied with this recommendation. Act 628, P.A. 2002, amended Section 388.851 of the *Michigan Compiled Laws* by transferring responsibility of review and approval of site plans for construction, reconstruction, and remodeling from the Superintendent of Public Instruction to the Bureau of Construction Codes and OFS, both within DLEG. The Department entered into an agreement with DLEG designating DLEG with the authority to review and approve site plans because DLEG has more expertise and a history of quality work performed in this area. The Department has not entered into agreements with other State and local agencies responsible for sanitation standards or health and food handling. The Department informed us that it had discussed such agreements with other agencies, but at the time of our fieldwork, no agreements had been entered into.



- e. We concluded that the Department had complied with this recommendation. The Department has implemented a policy requiring authorizers to notify the Department of all changes in PSA occupancy or location. We performed testing procedures and concluded that authorizers had notified the Department of changes in PSA occupancy or location.

## **RECOMMENDATION AND RESPONSE AS REPORTED IN JUNE 2002:**

### **11. Religious Symbols or Messages**

#### **RECOMMENDATION**

We recommend that the Department verify that PSA authorizers' internal controls are adequate to ensure the separation of religion from PSA operations.

#### **AGENCY PRELIMINARY RESPONSE**

The Department agrees with this recommendation. The PSA program did not verify the authorizers' internal controls ensuring the separation of religion from instruction. The Department will take steps to ensure that no student is made to feel uncomfortable in a PSA because of religious affiliations.

#### **FOLLOW-UP CONCLUSION**

We concluded that the Department had not complied with this recommendation but has initiated corrective action.

As stated in the background section, the Department has initiated action to address this recommendation by drafting a model system for oversight of PSA authorizers and by drafting authorizer accountability standards. The Department's goal is to have the system operational and the standards implemented by late fall 2004.

## **RECOMMENDATIONS AND RESPONSE AS REPORTED IN JUNE 2002:**

### **12. Legislation or Administrative Rules and Related Policies and Procedures**

#### **RECOMMENDATIONS**

We recommend that the Department identify and request legislation or administrative rules needed to more effectively administer the State's PSA program.



We also recommend that the Department develop and implement policies and procedures needed to administer statutory requirements.

### **AGENCY PRELIMINARY RESPONSE**

The Department agrees with the recommendations. The Department has not proposed legislation or administrative rules to facilitate the administration of the PSA program. However, the Department has taken the initiative, since the audit, to provide PSA training in the area of special education services to ensure that PSA leaders understand the obligation to provide special education services to students. Special education work shops were held on January 10, 2002 and on January 17, 2002 for PSA teachers and leaders. Work shops were also held on February 6, 7, and 8, 2002, to provide PSAs with information on the application of federal civil rights laws to PSAs. Also, the Commission on Charter Schools' report recommendations and House Bill 4800 of 2001 address Findings 12.a., 12.c., 12.j., 12.k., and 12.o.

### **FOLLOW-UP CONCLUSION**

Finding 12 consisted of 15 items (12.a. through 12.o.). For items 12.a. through 12.j., we recommended that the Department identify and request legislation or administrative rules to more effectively administer the State's PSA programs. For items 12.k. through 12.o., we recommended that the Department develop and implement policies and procedures needed to administer statutory requirements.

We concluded that for items 12.a. through 12.o. the Department had not complied with the recommendations but has initiated corrective action.

The Department recommended language in two bills to address items 12.a. through 12.f. and 12.h. through 12.j. However, this language was not included when the bills were proposed or enacted into law. The Department did not request a legislative change to address item 12.g. The Department did implement a policy related to the issues noted in item 12.d.; however, based on our follow-up, we concluded that the Department's efforts did not fully address item 12.d. and, as a result, the Department did not obtain all the information requested to be in compliance with the new policy.



The Department had not developed the necessary policies and procedures to address items 12.k. through 12.o. The Department has been working with the PSA authorizers on drafting a policy and procedure addressing items 12.j. and 12.l. In March 2003, Attorney General Opinion No. 7126 addressed the issues identified in item 12.m. The Department now uses the Opinion as the official guidance when evaluating a PSA's compliance with single site location requirements.

As described in the background section, the Department has also initiated action to address this recommendation by drafting a model system for oversight of PSA authorizers and by drafting authorizer accountability standards. The system and standards should help to establish policies and procedures and provide a basis for the Department to monitor compliance with those policies and procedures.